Webcast and teleconference

Q2 and H1 results 2010 – 17 August 2010

Ole Soeberg – Tryg, Head of IR

Good morning and welcome to Tryg's webcast for the first half 2010 and second quarter 2010 results. In the studio today, it is Stine Bosse, CEO, Morten Hübbe, CFO, and myself, Ole Søeberg. We will run through roughly 18-20 slides and then there will be time for Q&A and with my short introduction I will hand over the word to Stine

Stine Bosse – Tryg, CEO

Thank you very much, Ole, and also a warm welcome from me.

Slide 3 – Highlights in Q2 2010

The results we are showing you today are definitely better but still not what we would regard as good - but they are on the way to good. We have seen premium growth of above 3% - that is in local currency - driven definitely mainly by the strong development in our Private lines. Growth but also the technical result in the Private lines, as we will be commenting on later, is developing in the right direction.

The technical result is back to the level of the second quarter last year, which is in our opinion a good improvement but still, of course, as we will comment throughout the presentation there is more to be done and there is more being done within the portfolio.

The combined ratio is also back to the same level and impacted heavier by large claims than the same quarter last year. The claims ratio is our main focus area at the moment; to bring down the claims ratio further, back to the same level and the developments that we saw in Q3 and Q4. We are bending off from that negative development, but still it remains a focus area for us to reduce the claims ratio even further. What we would like to highlight is the improvement of the technical result in the Private lines because we actually show an improvement of 22%. That is where we have been up-pricing for the longest time with the most significant premium increases and of course that now ticks into the books, which also show a very nice development in the results. We will come back to the area of Commercial and talk about what we are doing and of course also the lack of results in Commercial lines.

Now, Finland grew again with 23% in Private and that is of course nice. It is of course nice to see that the combined ratio is now at the interesting level of 95. As we have commented earlier, we have focused the Finnish business since this time last year on better earnings and they have shown a very good improvement in especially Private but also on the total.

And then, as I said, there are some segments we still need to pay attention to. We will get back to Commercial. But also Private lines in Denmark need to improve further, and there are premium increases that are still being implemented. We have increased the premiums slightly due to the weather and due to the development in burglaries in Denmark that are still not satisfactory so something to think about. With the rain we have just seen in Denmark, which we will comment on throughout the presentation, of course it reminds us that premiums will have to go up. They are going up and that is of course to cater for the change in weather patterns.

Now the expense ratio is coming down 0.3 %. That is in our opinion OK. But we will have to look into further decreases for the next years. The programmes we are running at the moment we are in some of the areas speeding up to make sure they deliver results earlier. We are also now announcing and having a target for our claims ratio to in a – say – 7-10-year perspective get to a level of 10 % in our cost ratio. That is ambitious, but the programmes we are running are very ambitious and we need to make sure that we get the right vision for where we actually want to go. If you look into a 10-year perspective, if we look 10 years back we actually saw a cost ratio in an insurance company like this one of 27 %. So having a goal of actually getting 10 percentage points off from where we are now I don't think is – when we take it out in that perspective – I don't think is impossible. Actually, I think it is very possible, and that is definitely our aim. Now the investment side, Morten will go into details about that, but that is often where we are misunderstood at the moment because of the discounting of our books. So we have prepared some slides that probably could enlighten you a bit more on what is happening because, of course, we are not satisfied with the fact that it looks as if expectations for us in this area are higher than what we can actually deliver. When we benchmark ourselves on the actual investment results against our peers, we actually come out with pretty good results so we will come back to that in further detail. We are also happy to tell you that the capital position is now back in a better state. We are above our buffer of 5% and that is of course nice knowing that Solvency II has now come closer once again, one quarter closer, and we are preparing for that by all means.

Slide 4 – Key performance indicators

The next slide I don't think I want to go into any further detail in that. Perhaps just to point out the fact that if you look at the combined ratio and you look at the levels from this quarter to last year's quarter, you can actually see that we are back at the same level. And please pay attention to the fact that the lower interest rates actually have an impact on our combined ratio of 0.9 percentage points, which of course you need to look into when you combine the two.

Slide 5 – Stable insurance results while investments fluctuate

We have tried on slide 5 to show you that the stable insurance results are back on track. We are hit on the investment side and we will communicate on that. If you can hear some slight noise, it is actually rain, I dare not say it, but that is the fact of life at the moment here in Denmark. But back to the slide 5, back on track on the technical side, still lots to be done to go back to former very good performance and then of course the investment side, a bit different.

Slide 6 – Nordic peers

Looking at our peers on slide 6, you can see that on the growth side we – alongside with Gjensidige – are doing very well. If on the growth side – and I think that is how they view it – that growth in itself is not interesting – I tend to agree with them on that fact - I think they are right about that, definitely, and on the combined ratio side you can see that we are sort of in the middle of the road. Gjensidige are a bit above us, I would say that is probably just the way you calculate one quarter to another quarter. We are on the same level and I think we should congratulate Gjensidige on their improvements here on the combined ratio. And of course it looks as if If have sort of a kind of fixed place they want to go and also we could congratulate them on that meaning the whole sector is still at a very good level talking about combined ratios and even with that level we are actually all of us actively implementing further premium increases so I think that is a good situation.

Slide 7 – Segment performance

On the segments on slide 7, you can see here that both in the Private lines and in the big Corporate lines we are doing very well. Still stuff to be done in Private lines as we will comment on. But the painful area is the Commercial lines where we have speeded up the implementation plan for premium increases starting now already in October. Individual premium increases have been going on since last autumn, but we have speeded up the general premium increases to come out just in October.

Slide 8 – Expense ratio

Now if we look at the expense ratio, I would like you to pay attention to a figure you cannot really see specifically in the report. You can calculate it if you have got this report and look into the former reports. But we are actually close to 100 people less in head counts than we were a year ago and that includes of course growing in Finland and in Sweden so if you take the Danish and the Norwegian insurance businesses we are 127 people less in those two areas and of course that is very satisfactory.

Now we are working with the expense ratio in many, many ways. We are streamlining the distribution platform. We have digital and paperless processes all through the organisation taking down cost and handling and we do a lot with internal rotation making sure that we don't employ people from the outside before we have actually carefully looked whether we can do stuff internally. All these things do cater for higher efficiency within the organisation and that has to be somewhat shared between going to the bottom line but also investing in new areas as we have talked about earlier. And we still plan to do so. I think that it is over to you then, Morten, on the premiums.

Morten Hübbe, Tryg, CFO

Thank you on that, Stine, and as you said we are quite pleased with the growth we have delivered.

Slide 10 – Premium performance

On slide 10, we are showing 3.6% growth despite a difficult macro-environment and despite the reduced volume in the Corporate business. And the main driver is of course our largest area, Private, with growth of almost 8%, whereas the Commercial business is actually not growing when we look at it apart from the transfer of portfolios and that is actually fine because in this area, really, the key focus area is to get the pricing right and to match the new and higher risk. In Corporate, you can see a drop of 8%, particularly Denmark is down 13% and we have seen a combination of two things. We have seen macro-environments where a lot of factories are being closed down and workforce is being moved to cheaper countries, but also we see a competition and pricing level currently on Workers' Compensation. Insurance, which we are quite clear in our view, will not be profitable for the market and we don't participate in that.

Slide 11 – Price increases and stronger NOK impact premiums

Now if you follow on to the next slide, heading the largest growth is Private, which is of course something we are pleased with because that is also the business area where technical result is up 22%, combined ratio is actually down and we see really a further pipeline of price increases that will improve the combined ratio in this business area in the coming quarters. In Denmark, we have growth of around 8% and most of that is price driven but in reality we are also seeing now a positive volumes development in both Cars and in Houses. In Sweden, growth of 15%. Finland offers 25% and of course now seeing a combined ratio in Private Finland of 95 makes that an attractive combination. And getting down the combined ratios is of course the focus of the coming years

Slide 12 – Next wawe of price increases

On slide 12, we show how we continuously work with price initiatives. We said on the last quarter that we had accumulated DKK 900m price effect this year and a spill-over effect of DKK 700m next year. Now added to that so that 2011 will be more than a billion and then a spill-over effect of DKK 600m in 2012 and of course that number will grow as we approach 2012 initiatives as well. As you can see from the graph at the bottom of this slide, we are starting to see the proof of this happening. Average prices in Danish house insurance are up 6% - 9% up in Norwegian house insurance. They are starting to turn very good claims ratios in Norwegian house and also Norwegian cars are up 6%.

Slide 13 – Premium increase in Commercial

If you turn to slide 13, of course a different segment like Commercial is traditionally an area where you would tend to avoid general price increases. Now, in the autumn of 2009 we introduced a general price increase of around 15% in our Danish agricultural segment and through very strong cooperation with our sales force we managed that very successfully. We are now using the same model to carry out significant price increases in the region of 15% on general Commercial insurance both in Denmark and Norway and of course Commercial Property is one of the key areas. We are also seeing that our cost ratio - while improved as you said Stine by 2 percentage points in Private – is too high at above 25% in the Commercial segment. We have to reduce that and there are several areas where this can be done but one of them is to reduce our cost of distribution. Our direct distribution in Commercial is simply too expensive and the processes are too heavy and we need to reduce that.

Slide 15 – Claims ratio performance

Turning to claims, of course – as you said Stine – the most important really at the moment and on slide 15, we are showing that during the past two years we have seen a challenging increase in the claims ratio and as you said really the autumn of last year was just a sort of non-stop increase in claims ratios. And we are very pleased now to see that the second quarter is clearly at a lower level than what we saw in the autumn of last year. And particularly Private is significantly below the autumn. That is even despite having to increase our Motor Claims Reserve in Norway by DKK 60m in this quarter. And we look at the pipeline of price increases coming through we will see further improvements in this area in the coming quarters. Commercial is clearly too high. Of course, the one single large claim of way above DKK 100m in the quarter plays a role but underlying the claims ratio is too high as well. As you can see, in Corporate we are still producing very attractive total claims ratios but we are worried about the pricing in Workers Compensation and if you are not worried I think that would deteriorate the coming years.

Slide 16 – Claims development

On slide 16, we illustrate how you can see graphically the trend is coming down. Stine, you mentioned that interest rates actually alone increase the claims ratio 0.9% this quarter and if you look at the last two years in a row it is actually more than 2.5% that the combined ratio increased only due to interest rates. Danish house and content insurance is a challenge. The Danish Private market looks quite good but if you take house and content insurance, claims ratios are still at above 90 so combined ratio is significantly above 100 and that clearly needs to be addressed in the coming period. And that is of course why the price increases we are introducing now of 10-25% in house and content are called for. And also, we are in the process of making sure that our Commercial price increases take effect sooner rather than later so that they start already in October. Sweden and Finland have a combined ratio in the second quarter 2010. We see over the coming years that taking that to 95 will actually improve the group combined ratio by 2 percentage points. But we are pleased to see now that Finland Private is at 95 and that the purchased Moderna portfolio produces the combined ratio of 89.

Slide 17 – Frequency and average claims

Further on claims on slide 17, we show the development on frequency and average claims. We see that cars are up in frequency whereas the average is slightly down. In Denmark, we see 13% more cars burning, we see 19% more partial theft from cars and clearly there are some macro elements in those numbers whereas in Norway, the frequency increase is largely due to the winter impact in the first quarter but in total we are pleased with the motorprofitability in Denmark whereas in Norway it is actually a slightly too high claims ratio. In houses on the other hand, we are seeing stable frequencies in Denmark but still pipes are causing us some headache with an increase of 7% whereas in Norway an increase of 13 % is largely due to fires and water and as I said really the house content area in Denmark needs to come down in claims ratio whereas in Norway it is actually in very good shape.

Slide 18 – Large claims and weather related claims

And then of course large claims on slide 18, we are showing more than 200 million of large claims in Q2 that is higher than expected normal and I guess we have to say that we are currently investigating what should be our future expected normal level of fire claims because it seems to be getting to a higher level although having sold the Marine portfolio one of the causes of historical large claims has left our books. And then we are showing on the right-hand graph that very few weather related claims in Q2.

We have now seen in this week very, very heavy rain showers. We have already now seen more than 2,000 reported claims in Denmark. We expect that number to grow to more than 3,000. We expect the actual cost in Denmark to be in excess of DKK 100m and DKK 100m is an interesting number because that is where the reinsurance takes over and usually we expect DKK 125-150m in weather claims in a half year period. Of course having eaten DKK 100m off that already in August means that we have less buffer for the remaining period of 2010. So turning over from claims to...

Stine Bosse, Tryg, CEO

But perhaps we should just say, Morten, then on these weather occasions – it is extremely important that the way in which we handle them. We have this special system where we get actually a very good grip on these large occasions very fast already on Monday at 12:00 o'clock we knew about say half of the claims that we know are out there. And we have a very sort of determined way of handling it making sure that the customer does not sit there and wait and also to take the cost of a final claim, reduce that as much as possible from day one so if that is any good for an extreme bad situation that we will have to cater for in the premiums going forward, we will have to also the way that we work with the claims really does matter to where the claims take us.

Morten Hübbe, Tryg, CFO

Our claims people do a great, great job on this. We get a bit more experience than we like but that is a positive.

Slide 20 – Peer group investment return H1 2010

Turning to slide 20 on investment, as you said, Stine, this is perhaps an area that is slightly difficult to understand in this quarter. We have shown in the top pie chart of this graph that our total return of 2.5% for the half year is actually slightly above our peers – Gjensidige and Sampo – but what is perhaps a bit tricky to understand is the way that our matching process flows through to our numbers. Look at the first half, we have seen reduced interest rates that would give a capital gains on bonds but as we have chosen that we want to be neutral to movements in interest rates and not have positives in one quarter and negatives in another quarter we have illustrated on the bottom of this page that if interest rates then go down we have a gain on bonds we have a loss on discounting and then we are neutral in total. Whereas on the other hand, if interest rates move up there is a loss on the bonds, there is a corresponding gain on the discounting and again the bottom line is neutral. Whereas when we look at our peers, they would have a gain when interest rates move down and they would have a total net loss when interest rates move up. We believe that it is better for the profile of a company like ours to have a neutral impact and not have movements all over the place to interest rates but of course understanding that may be tricky.

Slide 21 – Investment result: 0.7% gross return in Q2 2010

To help that on slide 21, we have shown a table, which I will go through in great detail, perhaps not, but we are showing that strong gross investment result of DKK 269m then the corresponding loss on discounting of 266 and then the transfer of technical interest of 184 and you might say that what we have seen is of course a movement where the half a percentage point downwards on Danish interest rates causes most of the discounting impact and a bit less in Norway, but we can help you with more details on that but hopefully this enlightens you a bit more.

Slide 22 – Assets allocation

On slide 22, we are just showing that we are continuing with the cautious approach to our investment exposure. We remain with 4.5% in equities exposure or 19% of our active portfolio. We see that some of our peers are now at 13-14% equities exposure, which in reality means that that is more than 50% of your shareholders' equity in equities and of course that is a bad choice. We have shortened our mortgage bond exposure because of the risk there and we have reduced our high yield exposure in Q2 and further in Q3, I guess all to secure the focus on Corporate business Stine, and that is back to you on outlook.

Stine Bosse, Tryg, CEO

Slide 24 – Outlook 2010

Yes, and as you probably already have noticed we remain with the same outlook on growth, we increase our expectations for the technical result and on the other hand we slightly decrease our expectations on the investment side. Now having said that we point also in the half-year report to the fact that markets have gone differently since we closed the second quarter and of course also we point to the fact, as Morten has already mentioned on the technical side that the large claim that we just have experienced last week is included in our guidance, yes, but it actually eats some of the weather related stuff that we include in our expectations. That is to keep ourselves as transparent as possible to make sure that we can actually communicate as well as possible with you.

Slide 25 – Capitalisation

Now on the capital side, I think I have commented on that. It looks better now regarding the buffer and of course over the coming two quarters hopefully we will see that the surplus capital builds up further from where it is just as the moment. It should do if everything goes according to plan.

Slide 26 – 2010-2012 next wave of premium increases

Now, combined ratio as you can see on slide 26 – I think that is an interesting development, I think we have probably not shown it as clearly as this one where we saw the big premium increases between 2002 actually we started and then into 2004 we saw an improvement of the combined ratio and the premium increases we talked about at that time were just above DKK 2bn. The premium increases that we are now implementing actually if we add them all together add up to DKK 2.5bn and that is of course from a different starting point making sure that we actually hit our mid-term targets, which we are very committed to, and that goes both for the premium increases and for the plans that we have in place to reduce costs further. That is the one area that we can see that our competitors have actually done a lot about in recent years. So have we, but to keep sort of the distance to them that we would like in that area, we will increase our ambitions as mentioned earlier to take down costs further.

Slide 27 – Summary

Finally, just to sum up - I think apart from what I just said it is to say that we feel comfortable with the initiatives that we have not just planned but actually implemented to get back to the right level of combined ratios we feel comfortable with the way that we have sorted our investment portfolio. We feel that the way that we can now communicate also with a true sort of slots of investments that we are talking about, it makes us further transparent, we would love to be able to get you to predict better on our investment results and we will do all we can to help you in this area. And I think that we will go over to the questions now. Thank you.

Operator we are ready for the question session.

Christian Hede, Jyske Bank

Yes good morning, this is Christian Hede from Jyske Bank. I have a couple of questions the first one is whether you could give some more details and possibly also something about the background for the portfolio transfer and then I would like to hear a bit – that is probably a question for you, Stine – on the M&A activities. How are they progressing? Do you have anything on the way? And finally I would like you to give a bit of a view on how competitive effect will be for the premium hike – especially on the Commercial lines. Will you have to give up some market share to competitors or do you expect that to be eaten by other competitors also increasing prices? Thank you.

Morten Hübbe, Tryg, CFO

Well, if I take the first question, Christian, really moving portfolio is something that goes on all the time, but usually the numbers, net, are smaller and therefore we do not comment on them. For instance, it might happen if a Commercial customer moves from direct distribution to broker we would move them to our Corporate division so that all brokered business is handled in the same division so that distribution channels do not compete with each other and the same in this instance where some customers move from broker channel to the direct channel and they are really more of a Commercial customer nature we move them into Commercial and there have been some instances where the weight of Commercial business has increased and therefore we have moved the total customer from Private to Commercial, so really day-to-day business but they coincide with a bigger net movement to Commercial this specific quarter.

Stine Bosse, Tryg, CEO

And let us stay on the Commercial line issue here, Christian, I think when we calculate this we always calculate with the fact that some customers will leave us. That goes also when we do this in Private lines. Fortunately, we have a very, very high level of retention, we have very loyal customers and we do all we can to try to explain to the customers why these premium increases are needed and also, of course, we try to make sure that we always can give them good advice on how they can reduce their own claims risk, making sure that they have a possibility to perhaps later on get a lower premium again, so it is a two-sided thing, especially with Commercial customers. But I will say that we might see some customers leave us and we do not focus too much on that. We do focus on getting the profitability back on track. Now the environment in which we are implementing the premium increases is in our opinion as always but all our peers in this market either they have introduced premium increases or they are in the middle of introducing premium increases so it is in our opinion an OK market situation.

Morten Hübbe, Tryg, CFO

You might add that we saw in Gjensidige's report last week, we saw a Nordic Commercial business area with a combined ratio of 99 and I guess generally with seeing most companies around with clearly too high combined ratios in Commercial.

Stine Bosse, Tryg, CEO

On your question on M&A activities, there really is not anything new to add. I was asked this morning by a journalist whether we had been approached by smaller companies because of course we did give an invitation, and the answer is: Yes, we have been approached, but there is nothing that is sort of turning out to be interesting for either party I would say. So it is business as usual and I would say that with the developments that we see at the moment I think for all insurers it is for us to sort of remain at our knitting, make sure that we actually get the improvements through, to make sure, of course, that we can deliver the results in the future that you can expect.

Christian Hede, Jyske Bank

Thank you very much.

Jacob Brink, Handelsbanken

I have a couple of questions, please. The first one is regarding the – you talked about the weather-related claims or – the rain here on Saturday, you said that you are faced with having spent most of what you allocated in your guidance for the second half, so just to understand this correctly, have you then increased again or have you basically used most of your weather-related allocation already or have you then increased it so that there is room for more in the remaining part of the second half of 2010? That is my first question.

The second question is about the costs – it strikes me that they are actually quite high, at least in my estimate, it is actually quite high compared to mine and also it seems like it is the highest quarter ever on costs so what is going on here and when do you expect those initiatives you have initiated to actually start hitting the peer now. And then thirdly I would just like to come back to the premium increases once again. What do you think will be the net impact, I mean, I guess you must have done some sort of calculations on how many clients will leave, it is quite significant increases. Thank you.

Morten Hübbe, Tryg, CFO

If we take your first question, Jacob, the answer is very clear that traditionally our expectation for DKK 125 – 150m for a half year for weather would either have to take care of cloudbursts in the second or third quarter or bigger winter windstorms in Q4 or Q1, in many half years that does not happen, but we have not added to the buffer, we have used – you might say we have used 100 of the total buffer for the second half of 2010, and we have not added to that buffer, which of course is fine if there is no windstorm in Q4, which usually there isn't, but if we have both of those two events in the second half then that will be above the buffer we have used. I think on your second question on costs, there might be two factors that you need to take into account. The one is currency because we are showing very clearly that the same as our growth rate looks out of this world, if you don't take out currency, you have the same issue on costs of course that when the NOK increases as much as it does, then costs increase. The reality is that our cost ratio in Private, which is the biggest area, is down 2 percentage points - that is a huge reduction compared to last year. The cost ratio in Commercial is flat, but the level is too high, and then thirdly the cost ratio increases almost 2 percentage points in our Corporate segment and that is due to the drop of the portfolio level, which has meant that we have not been able to reduce cost at the same pace, but as Stine mentioned we will reduce costs in Corporate to make sure that that caters for the lower portfolio so in reality the number of employees is going down and the cost ratio is going down in our biggest area. But take into account currency when you look at that number. And then finally on your net impact question, well if you have a DKK 1bn price increase in a given year and you have a nice cosy claims inflation of a couple of per cent then that is only DK 400m, so the net looks fantastic, that would be 600 million, the problem is that the claims inflation is moving and I guess it is too early days to say that we now know exactly what is the new higher level of claims for house and content insurance. We expect a good net positive to come out of the 1 billion price increases next year. We have said that over the next 2-3 years we expect the combined ratio to come down towards the level of 90%, but we are not putting specific dates on that because the claims inflation is too uncertain.

Stine Bosse, Tryg, CEO

And perhaps, Jacob, as I understood your question you asked whether in the figures we had sort of factored in the fact that some customers would leave us so the figures should be net and to that question the figures are net figures, we have factored in that some customers are going to leave us so you should not correct for that. That is all in.

Claus Højmark Jensen, ABG

Yes, good morning, I just have a couple of fairly quick questions here. The first one is to this long-term guidance on your cost ratio where you now say that you would like to target at 10 % over the next 7-10 years. Can you maybe elaborate a bit on what would take you there? Is that a different distribution for example over the Internet or what specifically? I know you mentioned some headlines here, but could you maybe put them a bit into perspective for us, what the most important things will be?

Secondly, a bit more technical, you give us the run-off per business segment but could you maybe also help us in terms of geography? Which countries have run-off gains and do you strengthen that anywhere? I think that is it.

Stine Bosse, Tryg, CEO

I think, let me try to give you a perspective. First of all, I think when you run the programmes of the magnitude that we are running at the moment where we are actually sort of framing a common IT-platform for the total group you need to have a specific target for your costs and if you look at a business like ours, first of all the places where the costs are actually going - it is, yes, distribution, it is customer interaction meaning that with the way that we still use to a large extent – too large – snail mail, just the fact that taking all of that communication with the customers into the Internet where we expect in that time horizon definitely 80 % of the communication will go - all of those factors actually add up and then finally of course also with the structure of the organisation that we now have in place the ambitions for the coming IT solutions, not necessarily specifically all the products exactly the same, but the common IT solutions that will also eliminate the back office costs which are actually also of a magnitude in a company like ours so if you don't have this set of total ambitions, I would say it is a waste of money and time when you are engaged in large IT strategic thinking as we are at the moment. And then also I would say: Think about all the digitalisation that is happening, the mobile phones, the way that you can both be close to your customer and at the same time actually cut costs - in my opinion the ambition should be both in actual administrative costs but also in claims costs. I mean, if you are sort of there for your customers, spot on time, you are often in a position where you can reduce the claim. All these things I think need to be considered and factored in talking about the IT strategy and the new systems that we are putting in place and of course when I am talking about a 10 % cost ratio, please bear in mind that that is sort of for a running portfolio, that is not for a portfolio where you have huge growth or for a portfolio where you have large investments in IT and stuff like that, that is sort of post that period we should aim for 10 % and putting it into a historical perspective I think it is ambitious, yes, but I don't think it is unrealistic and I think we would be out of our minds if we did not with a 10-year perspective have that kind of target.

Morten Hübbe, Tryg, CFO

And your question, Claus, on the run-off, if we look at the half year numbers the run-offs are a bit more than DKK 200m in Denmark and roughly DKK 120m in Norway. If we look at the second quarter it is more unevenly distributed as a run-off gain of more than DKK 150m in Denmark and more or less a zero in Norway, in Norway as I said what has caused us not to have run-off gains in Q2 is that we strengthened our Motor reserve by roughly DKK 60m in the second quarter whereas in Denmark we have seen run-off gains in most areas, we still see run-off losses in Private lines like house and content, so there is a bit more breakdown there

Claus Højmark Jensen, ABG

Just a quick follow-up to you Stine – did you not say that this could put some more pressure on premiums as well that the distribution changes, etc.? And that it tends to make it difficult to reach a 10% target in costs?

Stine Bosse, Tryg, CEO

I actually think that it is like this, Claus, I think we need to always pay attention to our underwriting and make sure that we are sort of in line with the underlying developments here, but I also think that we have an obligation both towards you as investors and towards our customers in keeping down our costs. And I think the total of this has to go into better performance towards our customers. Either we do more for them or we are actually able to set the price differently, and half of it has to go to you as investors. It is not an either/or and I do think that if we continuously alone speak about premium increases I would see that customers at the end of the day would say: Hey, why are they working with their own work processes? And I think that the technology is there. We need to do a different kind of thinking, I think we could look towards the banks, I think we could look, actually in Denmark we could look towards the tax authorities who have been very efficient in the way they handle that sort of thing. I know they are only, sort of, one player, but I do think what people want is to be serviced in a different way. Especially if we look at it in a 10-year perspective, but I would say even today there are areas where I am quite sure that we are lacking considering how our customers actually would like us to serve them.

Morten Hübbe, Tryg, CFO

And I guess, you can also see already in our own books the differences between the business areas or smaller segments where we have invested a lot in process improvement and areas where we have not. We have got small segment where the cost ratio is 10, and we have got segments where the cost ratio is 40 so clearly we can also see internally what process improvement makes the difference in the cost ratio.

Stine Bosse, Tryg, CEO

And also of course finally just on that issue – if you look just at the segments now and you see that our Private lines are actually operating is it below 15? And we have got Corporate lines operating around 10 %, yes, with a factor just at the moment of the sort of top line situation, but even so, and then you can localise a segment in the middle for Commercial customers, I mean, that is not satisfactory, and we are going to do stuff about that.

Claus Højmark Jensen, ABG

OK, thank you very much.

Gianandrea Roberti from Carnegie

Yes, good morning from me as well, I have three quick questions. The first one is on motor insurance in Denmark, the recent interesting statement in your report was basically your saying that after a slight fall in the average premium in the last two years in Denmark you have been implementing new tariffs, including the annual mileage, the actual current security equipment and now that these parameters have been implemented average premiums are expected to increase, which – I mean, maybe I am thinking wrongly, but it sounds somewhat counter-intuitive because I would guess these parameters brought down slightly the average premium because I mean probably the risk shown now was somewhat lower than you thought, but now you are basically saying that premiums are expected to increase and anyway it seems to me that the Danish market, including yourself, for motor insurance we have a combined ratio around 75, which is already quite extraordinary, and I am just wondering how can you seem to basically – even charging the customer a higher amount let us put it like this.

And then the second question on Workers Compensation. Can you elaborate a bit more because you have been talking quite a bit about the pricing situation, but I would like you to comment on the claims environment, I remember you have been a bit worried in the last few quarters.

And also the *(inaudiable)* but Royal and Sun Alliance, obviously quite a (*inaudiable)* peer, had a very large sort of release in Workers Compensation in Q2. I don't know, I guess it is difficult for you to compare, but if you can just give me some clue on how you see that, and finally on the cloudburst of Saturday you are saying that everything above DKK 100m is paid by the insurers. One of your peers has a sort of insurance agreement where basically an event that spans for 72 hours, whatever happened, is covered, I think it is everything above DKK 50m but I am just wondering if today let us make an assumption it rains again the hell down on earth, are you going to pay again up to DKK 100m on every insurance cover everything on top of that or how would that work? Thanks.

Morten Hübbe, Tryg, CFO

Yes, if I take the first two questions. The motor insurance, I think that you have got it roughly right, what we are trying to explain is that the new parameters reduced the average price and the transition phase of doing that where quarter on quarter you continuously show lower average prices, that transition phase is coming to an end. I think that we have got one group agreement left, which is not completely there yet, but they are sort of more than 50 per cent there, so the transition phase is coming to an end. And after that transition phase we will start to see the more normal annual indexation of prices. Which means that we are not carrying out bigger price increases in Motor because profitability, as you said, is good but we are coming back, we are past the transition phase and we are coming back to a more normal sort of ongoing slight indexation and that is all we are trying to explain. Maybe not clearly enough, but ...

Stine Bosse, Tryg, CEO

Actually, I have just one more comment there – I think you should also see that we are only talking about the index that is normal in Denmark. We are not talking about price increases on top of that index. There was one newspaper that got that wrong already this morning so it is actually just sort of back to normal whereas we came from a situation which was not normal implementing this new tariff. Let me just make a couple of comments on Workers Compensation, then you can take it from there, Morten, I would say on Workers Compensation the situation is I think we are viewing the situation differently across different companies. We are not very optimistic and very positive – we think that there is quite a way to go to see increases in the level of interest, which could be positive for this type of business, so we are sort of predicting whether the same sort of dull, low level of interest rates will continue. We do see the pick up of social inflation, higher unemployment in Denmark and we should cater for that in our reserves and that is why we are very, very reluctant to be aggressive on price and we have not had any kind of releases from the reserves, on the contrary actually, we are slightly building up, so, yes, a difference in opinion and I don't want specifically to comment on RSA results but they have obviously come to a different conclusion.

Morten Hübbe, Tryg, CFO

Oh yes the danger is if someone looks at the claims ratio of Workers Compensation alone without looking at the underwriting years, you might look at the years when unemployment was low and claims ratios were lower, but if you compare say three years ago to for instance this year there is no doubt that both pricing is more difficult and claims are higher. So that is clearly a risk. On the cloudburst, the general phenomenon would be that events of cloudburst that are not sort of continuing as the same event would be new events and new events call for new DKK 100m of our own claims. We have also a 21-day component in our reinsurance which we use in the winter period but that is a different discussion so the starting point would be different events.

Stine Bosse, Tryg, CEO

Yeah

Gianandrea Roberti from Carnegie

Just to check one thing, indexation of water would be OK to imagine around 2 %, is that a reasonable level?

Morten Hübbe, Tryg, CFO

Yes.

Gianandrea Roberti from Carnegie

Thanks a lot.

Per Grønborg from Danske Bank

Yes, good morning, it is Per Grønborg from Danske, also a couple of questions from me, first related to a topic that has been up before, the DKK 2.5bn planned price increases. Besides I recall it was some two years ago since you started to come into – in principle – price hiking moduls so if you take the whole period, I assume that the price hike would have been materially higher, could you give us an indication of what price hikes have there been and how much of that already was earned on the top line in the second quarter?

Secondly to you, Morten, you gave a breakdown of the run-off gains by country, can you do the same on the last claims, and my third and final question is related to the cost in Commercial where you are blaming the Danish distribution model as far as I hear on the quite high cost ratio of 25. When I look into Topdanmark that is only doing Danish business – they have a cost ratio at 15. Are they doing something fundamentally different or is this just an issue of different internal accounting?

Morten Hübbe, Tryg, CFO

If I take the first question here, the price hiking, you are of course right that the price increases started before 2010 and what we have chosen is to be very explicit on the numbers in 2010 and 2011 and they come to these roughly DKK 2bn because that is the period where the price increases are extraordinarily high. I would say if you look at 2009 and 2008 for instance, if that is what you are asking too, in reality the price increases in Denmark were not really worth mentioning. There was price indexation annually, but in reality there was not a lot of additional price increases compared to that. There were additional price increases in Norway, particularly in Private, particularly in house, content and car but I think you can monitor that from the average prices we are showing and that is why the average claim on house and content or the claims ratio on house and content Norway has now moved down to roughly 70%, but I am not sure it makes sense to take all of the price increases in line and add on to 2010 and 2011 because in reality 2009 was only Norway and only Private.

Per Grønborg from Danske Bank

It is more that the price hikes you have done up until now have been more than absorbed by higher claims so what is the situation going forward of those 2.5 billion – most likely a significant part will also be absorbed by higher claims?

Morten Hübbe, Tryg, CFO

Well, I guess, I mean you can see the improvement in Private lines. 1 percentage point down. In reality despite the fact that we are getting a bigger weight into Sweden and Finland, which pulls up the average, it is showing improvements, but you are of course right that none of the price increases so far are in Commercial and of course when we are seeing that in Private lines the price increases are clearly higher than the claims inflation and we will both in the next 6-12-18 months we will see further improvement in the Private lines but you are right that of course we have not timed the price increases in Commercial to handle the continued claims inflation in Commercial and that is why when Jacob earlier asked about the net, we are a bit cautious to talk about the timing of the combined ratio improvement because we have not yet seen the claims inflation stop in Commercial whereas in Private it seems to have stabilised at a higher level and clearly our price increases are handling that also with the price increases we are introducing in the autumn and on 1 January. On the large claims, we have had large claims of DKK 236m before reinsurance in this quarter, more than DKK 160m of that is due to one claim, that one claim is in Denmark, which means that there is a clear overweight of Denmark in the large claims area this quarter.

Per Grønborg from Danske Bank

That DKK 160m claim is that DKK 100m for own account?

Morten Hübbe, Tryg, CFO

That is and a bit of reinsurance so it is a bit higher than that, I think the right figure is DKK 119m, but it is roughly right.

Per Grønborg from Danske Bank

OK, perfect.

Stine Bosse, Tryg, CEO

On your question concerning top cost ratio can I just ask you: They don't give the cost ratios specifically for Corporate lines, do they?

Per Grønborg from Danske Bank

Yes, they do

Stine Bosse, Tryg, CEO

OK, so if that is the situation they say that they have got 15 for Commercial I would only say that is great, I mean, that is a good situation for us because we are going to get there. We are by no means in a situation where we could argue that we should have any kind of higher costs than Top in this area so we will just have to figure out exactly what they are doing and copy it, I mean it is as straightforward as that, and

Morten Hübbe, Tryg, CFO

It has worked well in Private so now we have to do it in Commercial.

Stine Bosse, Tryg, CEO

Exactly, and I do think, Per, also, not disregarding that there might be some ways of calculating and all that stuff the way you share back office stuff and something like that but if you benchmark the Danish business and that is why I am asking you because if you benchmark strictly the Danish business to Top's business then we are actually spot on, I think we might even be just one ahead or something like that but it is very, very sort of comparable, that is why my starting point would be then they might be calculating differently, but if they are actually showing 50 on Commercial specifically and that is completely trustworthy, it is very good and then we have the benchmark to go down.

Morten Hübbe, Tryg, CFO

Yes.

Per Grønborg from Danske Bank

Of course as usual on our side we don't know how comparable those figures were. Therefore my question was more whether you could see some obvious differences in the way you distributed it, etc. into the Commercial line.

Stine Bosse, Tryg, CEO

To be quite honest, to my best knowledge, I don't think there is a lot of difference. We know very well what is wrong in our area and we are working to fix it as quickly as possible and that is why I think it is brilliant if that is a sort of benchmark out there, it is only going to help us.

Per Grønborg from Danske Bank

Yes, thank you.

Torsten Bech from LD Investment Markets

Yes good morning a few questions left from my side. First of all on growth could you give us an idea of the drivers behind the adjusted growth numbers in Commercial and Corporate, I believe it was 0.7 % and minus 4 % - how do you factor that in, in terms of prices, volumes and market share, especially on Commercial and Corporate, where do you see the volumes heading in the second half versus the first half of the year and secondly I noticed you were coming down on the QIS 5 or Solvency II measures - you indicated that you needed 49% in the December version of the QIS 5 or Solvency II statements but now you are down to around 40-45 % and I believe there was a change in April and then again from the EU Commission to the sales in early July. How do you split that deviation of 49% to 45% between those two events? Yeah that was my two questions.

Morten Hübbe, Tryg, CFO

Well, there is no doubt that volumes have been coming down in both Commercial and Corporate we see less cars being registered we see less employees so the volume is actually down in both those areas. In Commercial in reality we are keeping the market share, but the volume per customer is going down. I believe that will continue in the second half, it is mainly a Danish phenomenon whereas in Norway it is quite stable. In Corporate we see the combination of the same phenomenon in Denmark and then we see a loss of accounts mainly in Denmark but also slightly on Personal lines in Norway. That seems to have been stabilising a bit in the second quarter but in reality it is not a problem that has been solved so I think expecting lower volumes in Commercial and Corporate for the autumn makes sense but then we will start to see in Q4 and mainly next year that Commercial grows to the 10-15 % price increases we introduce whereas in the Corporate segment with a combined ratio of 84 of course the price increases will not be of the same magnitude.

Stine Bosse, Tryg, CEO

Perhaps just on the solvency II issues and Morten, then you can answer the question. I would just like to point to the fact that we are now sort of finding our way on how to communicate with you in these areas to be more open, more transparent but also to sort of find our feet in the way that we approach the landing situation and I think sort of the number of figures that we have shown now - this is trying to get closer, but with the full annual report we will do more stuff also to enlighten you further on our position.

Morten Hübbe, Tryg, CFO

Yes, and I guess we have had loads of versions from sign-ups during the last year. If I recall it the 49 was the top point which was in February I think, then in April there was a bit backwards and forwards on maybe charges were a bit too high on things like operational risk, maybe the way of treating intangible assets, it was not exactly right, but the biggest change was the one we saw in July where the loadings for invested assets one by one were reduced and also that the assumed correlation between the assets was reduced because it moved more or less historically from an assumption of correlations of around 25% and 50% at most to correlations of 75 to 100% during the winter, which is of course ridiculous assuming that everything moves in tandem because you have seen a crisis period where that happened so I cannot, Torsten, recall the exact split of the change, but I know that the bulk of the change was in July.

But maybe we can follow up with a call to you on that more specifically if you want it.

Stine Bosse, Tryg, CEO
And perhaps also just one sort of overall comment on what is going on in the debate at the moment. Now we think that diversification for geography has become too gross meaning that the Nordics are looked upon as one, and of course we are not alone on that - you can see that IF and RSA are aligned with us in that opinion. We will try to sort of argue that through the process. What we pick up at the moment is that our individual models or our own models would have to cater for that and of course they do and show different results from what the solvency shows just at the moment. The QIS way of doing it. OK, I guess.

Torsten Bech from LD Investment Markets
Thank you very much.

Morten Hübbe, Tryg, CFO
Thank you, Torsten.

Ole Søeberg, Tryg, Head of IR
It is a little bit after 10 so the time is over I guess. If you have more questions then Lars and I will be in the office for the rest of the day. You can call into the evening and tomorrow we will have meetings in Copenhagen and then throughout September there will be meetings in Europe and the US and we are also participating in several conferences.

All the details you can find on our new webpage which will be released later today. But you can also find it all in the old version, of course. Thank you for listening in and see you next quarter.